LEGISLATIVE RESEARCH COMMISSION

REPORT

TO THE

1977

GENERAL ASSEMBLY OF NORTH CAROLINA

SECOND SESSION 1978

1978

INVENTORY TAX

RALEIGH, NORTH CAROLINA

STATE OF NORTH CAROLINA

LEGISLATIVE RESEARCH COMMISSION

STATE LEGISLATIVE BUILDING

RALEIGH 27611

March 3, 1978

TO THE MEMBERS OF THE 1977 GENERAL ASSEMBLY (SECOND SESSION, 1978)

Transmitted herewith is the report prepared by the Committee on the Inventory Tax of the Legislative Research Commission. The study was conducted pursuant to House Joint Resolution 563 (ratified Resolution 74) of the 1977 General Assembly (First Session, 1977), and this report is submitted to the members of the General Assembly for their consideration.

Respectfully submitted,

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John T. Henley

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Co-Chairmen

LEGISLATIVE RESEARCH COMMISSION

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PREFACE

The Legislative Research Commission, authorized by Article 6B of Chapter 120 of the General Statutes, is a general-purpose study group. The Commission is co-chaired by the Speaker of the House and the President Pro Tempore of the Senate and has five additional members appointed from each house of the General Assembly. Among the Commission's duties is that of making or causing to be made, upon the direction of the General Assembly, "such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner" (G.S. 120-30.17(6)).

At the direction of the 1977 General Assembly, the Legislative Research Commission has undertaken studies of twenty-one matters. The Co-Chairmen of the Legislative Research Commission, under the authority of General Statutes 120-30.10(b) and (c), have appointed committees to conduct the studies, the committees consisting of members of the General Assembly and of the public. Each member of the Legislative Research Commission is responsible for coordinating the activities of two or more committees and serving as liaison between those committees and the Commission. Each committee is co-chaired by one member of the Senate and one member of the House of Representatives.

The study of the Inventory Tax was directed by House Joint Resolution 563 (ratified Resolution 74) of the 1977 General Assembly (First Session, 1977). The Resolution, in directing the Legislative Research Commission to study the inventory tax, charged it to evaluate the tax's

"relative benefits and detriments to the State, and to make recommendations as to modifications, alternatives, or both, as the Commission may find to be desirable."

A membership list of the Legislative Research Commission, a membership list of the Committee on the Inventory Tax, and a copy of House Joint Resolution 563 may be found in Appendix A.

COMMITTEE PROCEEDINGS

The first meeting of the Legislative Research Commission Committee on the Inventory Tax (hereinafter referred to as "the Committee") was held on November 18, 1977 (all meetings were held in the Legislative Building in Raleigh). The Committee received presentations from representatives of the North Carolina League of Municipalities and the North Carolina Association of County Commissioners. Also recognized for comments were Mr. Barlow Herget, Special Assistant to the Secretary of Commerce; Mr. Mark Lynch, Secretary of Revenue; Mr. Ken Flynt, Economic Advisor to the Governor; and Mr. Frank Justice, Fiscal Counsel to the Appropriations Committees Chairmen. The Committee took note of the resources devoted to study of this subject by the Governor and was assured of complete cooperation by Mr. Flynt. The Committee decided to divide the second meeting into two parts: a public hearing in the morning and deliberation and discussion in the afternoon.

The second meeting of the Committee was held on January 13, 1978. The morning session was devoted to a public hearing. Appendix B contains a list of the persons who participated in the public hearing (the permanent records of the Committee contain copies of written statements submitted by the speakers).

At the afternoon session, the Committee received another presentation from Mr. Ken Flynt. This presentation concerned the Governor's proposal for offering limited relief from the property tax on manufacturers' inventories. The Committee felt that the proposal seemed meritorious, but too few of the details had been worked out for the Committee to even

informally endorse the proposal. Mr. Flynt agreed to continue work on refining the plan and to return to the Committee at its next meeting with a more detailed proposal.

The third meeting was held on February 13, 1978. Once again Mr. Flynt appeared and informed the Committee of the specifics of the Governor's proposal. The Committee felt, once again, that it was inappropriate to bring the proposal to a vote, but decided to direct the staff to begin drafting a report incorporating the changes in the inventory tax recommended by the Governor. These changes seem well tailored to meet the problems as outlined in the Committee's findings. The date for the next meeting was set for March 3, 1978.

At the fourth and final meeting, the Committee reviewed a draft report prepared by the staff as directed at the previous meeting. After deciding upon several changes and additions, the Committee unanimously adopted the final report. The staff was directed to send copies of the report as revised to the members of the Committee as soon as they could be prepared and to ready the report for presentation to the Legislative Research Commission at its next meeting.

FINDINGS

The Legislative Research Commission Committee on the Inventory Tax, after considering the presentations made before it and the data it has gathered and evaluating the effects of the inventory tax and the probable consequences of its repeal, makes the following findings:

1. North Carolina is among a minority of states which fully tax inventories.

According to "Effects of Inventory Taxes on Industrial Plant Locations," prepared by the Division of Economic Development of the Department of Commerce (the report is contained in Appendix C), thirty states currently allow at least a partial exemption from the property tax for manufacturers' inventories. In twenty of these states, the exemption is complete. In some cases, all personal property taxes have been repealed; in others, the relief has been specifically directed towards manufacturers' inventories. In terms of plant location decisions, each of these thirty states has offered some inducement in the area under study here.

The same report analyzes with greater specificity the full scope of manufacturers' property tax exemptions in the southeastern states (North Carolina, South Carolina, Virginia, Kentucky, Tennessee, Georgia, Florida, Alabama, and Mississippi). Of the nine, only North Carolina offered neither an exemption nor significant reduction for either raw materials or manufacturers' inventories. It should be noted in this context that North Carolina does allow for taxation at a reduced level of valuation for three commodities: leaf tobacco (60%), bales of cotton (50%), and

peanuts (20%); see G.S. 105-277.

When compared with the nation as a whole, and especially in contrast with our southeastern neighbors, our most natural competitors for new industrial locations, the Committee has found North Carolina to hold a minority position in allowing no significant tax relief on manufacturers' inventories.

2. <u>The tax on manufacturers' inventories places North Carolina at a competitive disadvantage in recruiting new industry</u>.

Much of the testimony received by the Committee concerned the effect on industrial location decisions of the tax on manufacturers' inventories. Although several articles were brought to the attention of the Committee indicating that local taxes do not play a significant role in a plant location decisions (see, for example, "The Effect of Taxes on Industrial Location," <u>Popular Government</u>, 1973), the Committee has found the tax to be an important factor when industries most seriously affected by the tax on inventories are considering a location in North Carolina. The significance of the tax is at its greatest when all other factors being considered by a company are equal. Under such circumstances, the tax on inventories might well turn a prospective corporate citizen away.

No evidence was received by the Committee, and the Committee has not found, that the climate in North Carolina is unattractive to businesses seeking a new plant location. In fact, the case is quite the contrary. The weather, natural resources, geographical location, and many other factors serve to make North Carolina extremely appealing in the competition for new industries. Many of our neighboring states, however, can, and do, offer the same inducements to plant locations.

In addition, these states can offer some tax relief on manufacturers' inventories. This relief, the Committee has found, is significant when several states offer different advantages and the decision is a close one. Speaking in opposition to relief of the tax on inventories, several persons pointed to advantages to be found in North Carolina which other states do not offer (for example, North Carolina property taxes as a whole are generally lower than those in South Carolina). The Committee found, however, that there will still be many situations when all other factors balance out and the existence of the tax on inventories in North Carolina will be the determining factor in a decision to locate elsewhere.

In the context of competition with other states, the Committee sought information concerning the amount of revenue and jobs lost in recent years owing, at least in part, to the tax on manufacturers' inventories. It is recognized that estimates in this area are at best speculative. The reasons for deciding not to locate a plant in North Carolina may be complex, and some companies may be reluctant to divulge the facts concerning such a decision. Elements of public relations may be of great importance. Despite these difficulties in obtaining accurate data, the Committee felt it was crucial to its full consideration of the issue to look at the best figures available concerning lost investments and jobs.

In the report prepared by the Division of Economic Development (Appendix C), which was discussed above, an effort was made to assess the negative economic impact of the inventory tax for the period from 1971 through the middle of 1977. According to the report, during that period, the tax on manufacturers' inventories had an impact on forty-five negative plant location decisions. The report cites the tax as

the single or principal factor in most of those decisions. The estimated investment which would have resulted from all forty-five plants was fixed at $504,400,000. The report also contains an estimate of jobs lost in those plants of 17,565 positions. Although the Committee has made no finding as to the accuracy of these figures, even allowing for a significant degree of error, the numbers underscore the dampening effect the tax on manufacturers' inventories has had on industrial development in North Carolina. The Committee finds that the tax has seriously hampered industrial recruitment and placed North Carolina at a competitive disadvantage with other states.

3. <u>There is a significant level of correlation between inventory-intensive industries and high-wage industries.</u>

An important issue that surfaced several times during deliberations of the Committee was the type of industry that should be recruited for North Carolina. There was general agreement that industries paying high wages were those most desirable for our State. It is, however, with respect to those same high-wage industries that competition among the states is the strongest. It was important to determine if relief in the tax on manufacturers' inventories would have any significant impact on the more desirable industries.

Evidence received by the Committee indicated that the inventory tax was most likely to be a key factor in a plant location decision when the operation contemplated for the plant would involve a high level of inventory. Mr. Flynt, reporting on research conducted at the Governor's request on the inventory tax, stated that a very high correlation had been found between inventory-intensive industries and those which pay above-average wages. In fact, of all the industries which had been

classified generally as inventory-intensive, only one or two failed to exceed the average wage in North Carolina by a significant degree. The Committee found this relationship to be very important in that relief in the manufacturers' inventory tax could lead not only to increased economic development, but that the industries most likely to be involved in that development would raise the average wage in North Carolina.

4. Any relief granted in the tax on business inventories must not result in erosion of the local property tax base.

At each meeting of the Committee, representatives of city and county governments made presentations. At the public hearing, a large number of such representatives was heard. In almost every case, the message centered around protection of the local tax base. There was united opposition from these groups against any proposal which would reduce the tax paid on inventories and allow such a reduction to come from the revenues of the local units of government.

The North Carolina League of Municipalities, however, took a position which did not oppose any relief which would be funded by the State through an income tax credit for property taxes paid on inventories. The North Carolina Association of County Commissioners took a more restrictive position, opposing even a proposal which would be funded via the income tax credit. The primary reason put forth for the latter position was the possibility that pressure on State revenues in the future would cause the State to shift the burden for the inventory tax relief to the local units of government.

Various reasons were set forth as to the need for protecting the local tax base. Several recently enacted exemptions have already resulted in erosion of the tax base, such as the homestead exemption

for the elderly and disabled and the exemption for recycling and resource recovery facilities and equipment. Constant pressure at the local level to refrain from increases in the tax rate, coupled with these erosions in the tax base, have placed local governmental officials in an untenable position.

The Committee has found these arguments to be substantial. Relief in the inventory tax which came directly from local revenues would place local units of government in a position of shifting the tax burden in an unfair manner. Even if estimates of increased development are accurate, there is no reason to believe that this development will be uniformly spread across the State. Although the degree of erosion of the tax base would differ around the State, it would surely be felt in every county. The benefits, especially over the first few years during which relief is available, will certainly not be as widely dispersed.

On the other hand, the State will benefit directly from every new plant which locates in North Carolina as a result of inventory tax relief. Increases in corporate income tax alone, it has been estimated, could more than finance some limited forms of relief. The Committee finds that logic and equity require that any relief accorded in the inventory tax should be financed, through whatever mechanism appears most appropriate, by the State and that the local property tax base should be protected from any erosion.

5. <u>Any relief granted in the tax on manufacturers' inventories must be tailored to protect the fiscal integrity of the State of North Carolina.</u>

It is indicative of the difficulty presented in estimating revenue loss to the State from inventory tax relief that two estimates of the

Department of Revenue, made only a month apart, of the revenue loss of a ten-year phase out of the tax differed by over $20 million. On May 13, 1977, the Department of Revenue submitted to the Chairmen of the House and Senate Finance Committees a figure of $60,800,000 as the estimated revenue loss in 1986-87 of a ten-year phase out of the inventory tax. By memorandum dated June 14, 1977, the Department set forth a figure of $81,400,000 for this loss. In each document the Department stressed the difficulty in obtaining reliable data and "considerable concern" over the accuracy of the estimates.

In recruiting industries to North Carolina, the Committee finds, an attractive tax package must not be developed at the expense of the fiscal integrity of the State. Any relief granted in the inventory tax must be carefully tailored to limit the maximum amount which the State will have to finance. Current estimates place the value of property taxes paid on raw materials and goods-in-process in manufacturers' inventories in North Carolina at $60,000,000. It would have a serious impact on the General Fund if the State were to try to absorb this cost immediately. The Committee finds that every effort must be made to assess the economic impact on the State of any relief granted in this area, and to limit such relief to the extent necessary to assure adequate State revenues will exist to finance the cost.

It should be noted that it has been suggested that some of the proposals for inventory tax relief have included estimates indicating that the increased industrial development generated by the relief will cover the cost of granting it. By stressing the need to protect the fiscal integrity of the State, the Committee does not imply that insufficient new revenues will be generated. The only concern expressed here is that no relief be granted which will make the State rely on new revenues which

might take longer than anticipated to be realized.

6. Any relief granted in the inventory tax should be restricted to those businesses which are most severely burdened by the tax.

The Committee has found good reason for limiting any relief which might be granted in this area; it is necessary to keep State expense within manageable levels. Any changes made in the inventory tax should be rationally related to the goals sought to be attained. The Committee has addressed the problem, from the outset, as a matter of economic development. In directing executive branch personnel to study the same matter, the Governor has likewise characterized the question as one of economic development. In seeking the most effective means of attracting new industry through limited relief in the law, the Committee has found that relief should be directed toward those industries which are likely to find the inventory tax a burden: manufacturers with high levels of inventory.

As was noted earlier, local taxes are not always the most important factor in a location decision. In fact, in some instances local taxes may be of no importance at all. The Committee finds that those industries with abnormally high levels of inventory are most likely to be discouraged from locating in North Carolina by the high inventory tax and, as well, will find reduction of the inventory tax a significant inducement to locate here.

Although most of the discussion in this report centers around new industries locating in North Carolina, the Committee feels that equity demands that any manufacturers already located in North Carolina whose operation entails an unusually high level of inventory should share in any relief offered new plants. While the purpose of relief may be to

encourage location in North Carolina of manufacturers who might otherwise not do so because of their high levels of inventory, the result of any such relief should not be an affront to North Carolina's good corporate citizens already here despite the heavy burden.

The Committee finds that any relief granted should be limited to manufacturers whose operations entail large amounts of inventories and should be available to new plants, expanded operations, and existing plants which meet prescribed levels of inventory intensiveness.

RECOMMENDATIONS

The Legislative Research Commission Committee on the Inventory Tax, after a complete review of the data it has collected, and in light of the findings it has made, makes the following recommendations:

1. Limited relief should be granted from the inventory tax.

The Committee devoted much of its limited time and resources to deliberation on the central issue of whether or not a real need existed to reduce property taxes on manufacturers' inventories. Persuasive arguments were put forth maintaining that a reduction of the tax would have no effect on economic development and that any reduction would pose a serious threat, either immediate or delayed, to the local tax base. In the final analysis, however, the stronger logic supports the granting of relief.

It has been suggested that the taxes on inventories are not significant, in most cases, in plant location decisions. The Committee did not find it necessary to refute this contention. Even if consideration of local taxes is a low priority criterion in determining where to locate, in close cases, it may well be the determining factor. There is ample evidence to indicate that the existence of this tax, in combination with one or more other negative factors, has been sufficient to dissuade potential corporate residents from locating in North Carolina. South Carolina, a state with which we most frequently compete for new industry, in many cases may lose out to North Carolina, as it is true that the overall tax picture in North Carolina is often more attractive. But in

those instances where a company has an abnormally high level of inventory, or where all other factors balance out, North Carolina's tax on inventories may well win the recruiting battle for South Carolina.

The Committee has specifically found that any relief granted should be structured to protect the local property tax base from erosion. Some opponents of change have expressed the fear that, in the future, any burden assumed initially by the State might be shifted to the local governments. The Committee has found no support for this contention. Protection of the local tax base is a constant and significant concern with much of the legislation considered by the General Assembly. Although several cases of such erosion in recent years have been cited, the Committee does not feel such a speculative danger should serve as an obstacle to legislation needed currently. There has been evidence that significant benefits (additional property tax, higher employment levels, etc.) will accrue to the local governments as a result of the increased economic development which will be generated by relief from the tax on manufacturers' inventories. The probable result of relief, in fact, is additional, not reduced, revenues for local governments.

For these reasons, the Committee recommends that relief be granted from the property tax on inventories. The following recommendations deal with the specifics of the proposed relief. Much of what is proposed here was developed through the cooperative efforts of several departments of the executive branch of government at the direction of Governor Hunt. The Committee wishes to express its gratitude to the Governor's staff for working closely with the Committee and enabling it to complete its study within its limited budget and resources. The Committee is also grateful to both the Lieutenant Governor and the Speaker of the House for their assistance and suggestions.

2. <u>Relief should be limited to manufacturers' inventories of raw materials and goods-in-process</u>.

The single significant goal sought through changes in the tax on inventories is the fostering of economic development. The proposals set forth here are not purported to be tax reform; it is not inequitable treatment that is sought to be alleviated. Rather, these changes will create a tool for use in industrial recruitment. It is, therefore, logical to restrict relief to manufacturers only. It should be noted that the Committee sought the most limited means possible of achieving the desired goal. Although it appears that increased industrial development will provide ample revenue to offset the cost of the proposed tax reduction, the Committee concluded that a conservative approach will best serve to protect the fiscal integrity of the State. Therefore, as the goal sought is to bring manufacturers to North Carolina, and to encourage those already here to expand their operations, the Committee recommends that relief be limited to manufacturers' inventories.

Careful consideration has also been given to the question of whether or not all inventories held by manufacturers should be included in the tax relief. Once again, the Committee sought the narrowest logical approach. Because relief is directed towards manufacturers, it is appropriate that only those inventories which are truly part of the manufacturing process qualify for the relief. Finished products are not peculiar to the manufacturing process. Also, it would be inequitable to include finished goods held by manufacturers, while excluding those held by wholesale and retail merchants. The Committee recommends that relief granted be limited to raw materials and goods-in-process held by manufacturers.

In this context, the Committee noted that a precise definition of

"goods-in-process" must be developed if the proposals recommended here are to be implemented effectively. Several possible approaches were discussed. One suggestion was to consider inventory as "goods-in-process" if less than a predetermined percentage of the total cost of manufacturing the item had been expended. It appears that whatever method is selected, the best approach is to define "finished goods" and define "goods-in-process" as items which have not achieved the status of "finished goods." The Committee does not express here a recommendation as to the definition of "goods-in-process," but wishes to stress the importance of developing a sound approach on this point.

3. Relief should be limited to manufacturers with high levels of inventory.

In trying to promote industrial development through the narrowest possible change in the tax laws, the Committee addressed the question of which manufacturers should qualify for relief. It is clear that those manufacturers which maintain high levels of inventory would be most likely to find the tax on inventories a significant factor in deciding whether to locate or expand their operations in North Carolina. As these are the manufacturers which will be most inclined to view reduction of the tax on their inventories as a significant incentive to locate in North Carolina, the Committee recommends that relief be limited to manufacturers having unusually high levels of inventory.

Several methods for evaluating whether or not a particular operation was inventory intensive were considered. Clearly, a dollar value of raw materials and goods-in-process would be inappropriate. It would have the effect of limiting relief to large companies and excluding small ones. It was necessary to evaluate the inventories relative to the size of each

operation. The Committee recommends the use of a ratio which compares the value of goods-in-process and raw materials to the total annual cost of manufacturing of the firm. Cost of manufacturing is a good indicator of the size of a business operation. It has been determined that nationally, according to the most recent data available from the U.S. Department of Commerce, the average manufacturing business maintains an inventory with a book value of twelve percent (12%) of its annual cost of manufacturing.

Several advantages will be gained by using this approach to determine whether or not a business is inventory intensive. A comparative technique will not work to the benefit of either large or small companies. The absolute value of the inventory which qualifies is irrelevant; it is only the relative value of the inventory when compared to the annual cost of manufacturing which is considered. Another benefit of this approach is that it utilizes figures available through the accounting methods of most companies. All companies show a book value for their inventories, and most have ready access to the figures necessary to compute their annual cost of manufacturing. Any company desiring to take advantage of this tax incentive, if not already doing so, would have to keep the appropriate records to qualify. A third, and perhaps most significant, advantage to this method of analyzing the intensiveness of a business inventory is that the Department of Revenue feels it can be efficiently administered without significant expense.

4. Only that portion of a manufacturer's inventory of raw materials and goods-in-process which is found to be excessive should be eligible for tax relief.

The Committee finds it inappropriate to relieve any manufacturer

of its entire tax liability for qualifying inventory even though the level of inventory has been found to be excessive. This would create a serious inequity between manufacturers that qualify for relief and those that do not. Rather, the Committee recommends that a three-stage process be employed. First, it must be determined which manufacturers have excessive amounts of inventories of raw materials and goods-in-process. Second, an assessment must be made of what portion of the qualifying inventory should be held to be excessive. And third, relief should be granted from the tax on the excessive portion of the inventory only, not the entire inventory.

The approach to be used in determining whether or not a manufacturer has an excessive inventory of raw materials and goods-in-process was discussed in Recommendation 3, above. The book value of the inventory is to be compared to the annual cost of manufacturing. It was also noted that a national average has been found to be .12; that is to say, the value of raw materials and goods-in-process equals twelve percent (12%) of the annual cost of manufacturing.

The Committee recommends that excessive inventory be defined as raw materials and goods-in-process equalling more than fifteen percent (15%) of the cost of manufacturing. The Committee received recommendations ranging from twenty percent (20%), the Governor's initial proposal, to ten percent (10%), the figure recommended by the Lieutenant Governor. The Committee finds that fifteen percent (15%) is consistent with the conservative approach adopted throughout these recommendations. It appears that the slight amount of inducement which would be achieved by setting the figure at twenty percent (20%) would result in, at best, a minimal impact on industrial recruitment. At the time the Committee was considering this recommendation, available data indicated the total cost

to the State of using ten percent (10%) would be higher than should be undertaken initially. These considerations led the Committee to adopt fifteen percent (15%) as the figure defining excessive inventory.

After it has been determined that a company has an excessive inventory, the extent of the excessive inventory would be determined by finding the dollar value of the inventory exceeding fifteen percent (15%) of the cost of manufacturing. This value would constitute the portion of the inventory subject to relief. Finally, the amount of tax paid on the excessive inventory would be the amount of tax relief for which the company qualified. A step-by-step explanation of these calculations is contained in Appendix D.

One other point was considered in determining which manufacturers should qualify for relief. It was determined that the tax incentive would be more effective if applied to each plant, rather than to an entire company. This decision follows logically from the goal sought to be achieved. A company already located in North Carolina might have part of its operation located elsewhere because of the inventory tax. A plant-by-plant approach would reduce the reason for such a pattern. Further, it would be inappropriate to either grant or deny the relief to an entire corporation when the greatest equity can be achieved by looking at each operation. The Committee therefore recommends that eligibility for the proposed inventory tax relief be determined with respect to individual plants, not corporations as a whole.

5. <u>The relief should be structured as a tax credit against State corporate income tax.</u>

The Committee found it important to protect the local property tax base. It also found that it would be most appropriate for the State to

pay the cost of the proposed relief. Several possible methods could have been used to accomplish both these goals; however, utilization of an income tax credit will allow the State to assume the additional administrative effort required by the change rather than spreading it among all one hundred counties. Because the computations used in determining eligibility for tax relief, and the amount of relief, will require information about a company's finances more related to corporate income tax than local property tax, it is more logical to place any new administrative responsibilities with the North Carolina Department of Revenue.

The Committee recommends that manufacturers pay the full property tax on their inventories. Those that qualify for relief under the proposal set forth here would calculate the amount of relief to which they are entitled and receive it as a tax credit against the corporate income tax owed to the State.

6. <u>The proposed changes in the tax on manufacturers' inventories should become effective January 1, 1980</u>.

The Committee found several factors to be significant in attempting to determine the most appropriate time for making its recommendations become effective. In terms of industrial recruitment, some amount of lead time must be allowed before a company induced to locate in North Carolina by this new incentive could actually go into production and take advantage of the proposed tax credit. On the other hand, the view has been expressed that the changes should be made effective immediately to show good faith towards those businesses already located in North Carolina which have had to withstand the burden of the tax on inventories for years.

It has also been pointed out, and stressed by the Lieutenant

Governor, that an earlier effective date would benefit some of the smaller towns in North Carolina. It has been demonstrated that smaller manufacturers are more likely to locate in small towns because a large work force is not a prime consideration. These same small manufacturers are able to locate more quickly than large ones and would, therefore, be able to take advantage of an earlier effective date.

The Committee found these arguments in favor of an early effective date to be very persuasive. At the time of the last meeting, however, it also seemed very important to make the effective date late enough so that the impact of the changes would not be felt until the 1979-81 biennium. The Committee received testimony that it would be very difficult to deal with the changes if they were to affect the fiscal year 1978-79. The General Assembly will be considering the budget for that fiscal year at the same time it will be considering these proposed changes. The Committee feels that it would be difficult to resolve both matters if they were to be effective at the same time. For this reason, the Committee recommends that the proposed changes in the inventory tax become effective on January 1, 1980. The Committee wishes to stress, however, that at the time this decision was reached, that appeared to be the earliest feasible date.

7. The proposals recommended in this report should be implemented through amendment of Senate Bill 642.

Senate Bill 642 was introduced by Senator James Garrison, a member of the Committee, during the 1977 Session of the General Assembly (First Session, 1977). The bill, which passed the Senate and is currently before the House Finance Committee, would have phased out the property tax on manufacturers' inventories over a ten-year period. The mechanism of a

State corporate income tax credit which is recommended here was also incorporated in Senate Bill 642.

The Committee considered several alternatives as a means of bringing its recommendations before the General Assembly. Because Senate Bill 642 was debated thoroughly and is already understood by most members of the General Assembly, the Committee has found that the best method for introducing these new proposals would be through amendment of that bill.

APPENDIX A

LEGISLATIVE RESEARCH COMMISSION

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GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1977

RATIFIED BILL

RESOLUTION 74

HOUSE JOINT RESOLUTION 563

A JOINT RESOLUTION DIRECTING THE LEGISLATIVE RESEARCH COMMISSION TO STUDY THE PROPERTY TAX ON BUSINESS INVENTORIES.

Whereas, the economic well-being of business enterprises in North Carolina is important to the economic health of the State; and

Whereas, the existing tax on business inventories may be placing North Carolina businesses, and particularly small businesses, at a disadvantage when competing with out-of-state firms; and

Whereas, studies of the tax system of North Carolina have tended to be so broad in scope that the special features, problems and burdens of the inventory tax have not received special attention; and

Whereas, it is desirable that an in-depth study of the inventory tax be made in order to determine its relative benefits and burdens and to evaluate possible corrective action;

Now, therefore, be it resolved by the House of Representatives, the Senate concurring:

Section 1. The Legislative Research Commission is directed to make a study of the inventory tax on business enterprises, to evaluate its relative benefits and detriments to the State, and to make recommendations as to modifications, alternatives, or both, as the commission may find to be

desirable. The study shall be conducted in connection with the commission's examination of North Carolina's revenue laws as directed by other legislation during the session (S. B. 578).

Sec. 2. The Legislative Research Commission shall report the results of its study to the General Assembly not later than February 15, 1978.

Sec. 3. This resolution shall become effective upon ratification.

In the General Assembly read three times and ratified, this the 29th day of June, 1977.

James C. Green

President of the Senate

Carl J. Stewart, Jr.

Speaker of the House of Representatives

APPENDIX B

LIST OF SPEAKERS

PUBLIC HEARING ON THE INVENTORY TAX

State Legislative Building, Raleigh

January 13, 1978

PROPONENTS OF REPEAL

Mr. Paul Spain, President
North Carolina Developers Association

Mr. Clarence W. Walker
Kennedy, Covington, Lobdell
and Hickman, Attorneys
Charlotte, North Carolina
representing
Phillip Morris Company

Mr. Sidney L. McLean, Jr.
Manager of Taxes
Agri-Chemical Division
United States Steel

Mr. W. Earl Bardin
Area Administrator
First Union National Bank

Mr. E. H. McShane
Manager of Property Taxes
Westinghouse Corporation
Pittsburgh, Pennsylvania

Mr. K. A. Johnson
Manager, Industrial Relations
Western Electric Company

Mr. Roger P. Edwards
Director of Manufacturing
Lorillard

Mr. R. J. Miralia
President and Chairman of
the Board
Distribution Technology, Inc.
Charlotte, North Carolina

Mr. William J. Veeder, President
Greater Charlotte Chamber of Commerce

Mr. Richard Peniston
Federal Pacific Electric
[read by Mr. Veeder]

Mr. Ed Lever, President
KMW-Johnson, Inc.
[read by Mr. Veeder]

Mr. Liborio Ferracane
Corporate Director of Taxes
Square D Company

Mr. Charles L. Little, President
North Carolina Textile Manufacturers
Association, Inc.

Mr. Roger Gant, Jr., President
Glen Raven Mills, Inc.

Mr. William Rustin
Rustin Furniture Company
Gastonia, North Carolina

Mr. J. W. Green, Owner
Green's Jewelry Stores
Roxboro, North Carolina
and
Former President, North Carolina
Merchants Association

OPPONENTS OF REPEAL

Honorable Fred Turnage, President
North Carolina League of Municipalities
and
Mayor of Rocky Mount, North Carolina

Mr. Ron Aycock, Executive Director
North Carolina Association of County Commissioners

Mr. David Hunscher, Gaston County Manager

Honorable Peter Foley, Chairman
Mecklenburg County Commissioners

Mr. Wallace Peeler
Rowan County Tax Supervisor
and
President, North Carolina Association of Assessing Officers

Mr. Frank Moore
Duplin County Tax Supervisor

Honorable Forrest Campbell, Chairman
Guilford County Commissioners

APPENDIX C

EFFECTS OF INVENTORY TAXES

ON

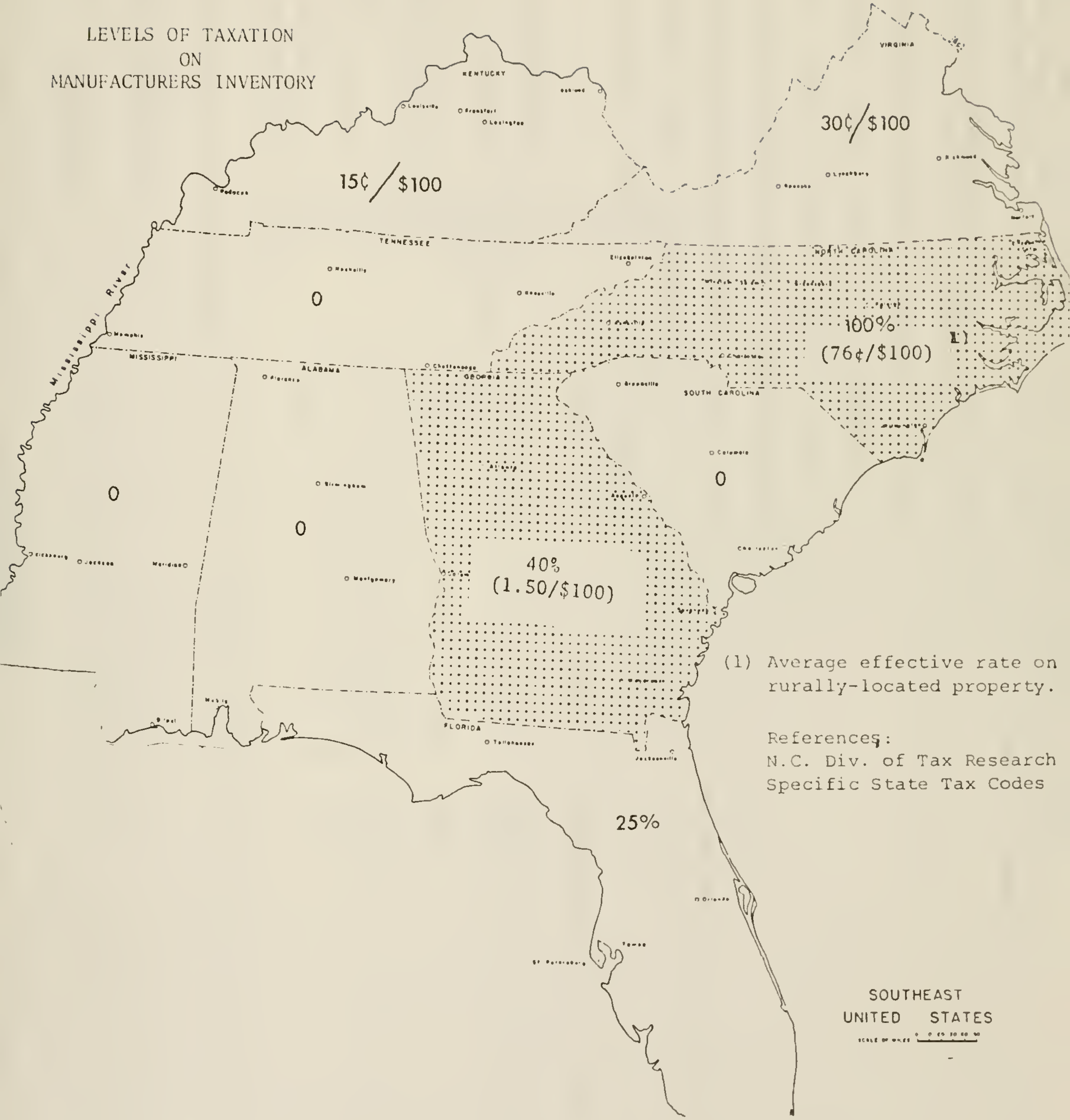
INDUSTRIAL PLANT LOCATIONS

DIVISION OF ECONOMIC DEVELOPMENT

MAY, 1977

TABLE OF CONTENTS

LEVELS OF TAXATION ON MANUFACTURERS INVENTORY



(1) Average effective rate on rurally-located property.

References:
N.C. Div. of Tax Research
Specific State Tax Codes

MANFUACTURER'S PROPERTY TAX EXEMPTIONS

Exemption	N.C.	S.C.	Va.	Kent.	Tenn.	Ga.	Fla.	Ala.	Miss.
Tax Exemption or Moratorium on Land, Capital Improvements		X	X(8)	X(5)	X			X	X
Tax Exemption or Moratorium on Equipment, Machinery		X	X(8)	X(5)	X			X	X
Inventory Tax Exemption on Goods in Transit (Freeport)	X(1)	X			X	X	X	X	X
Tax Exemption on Manufacturers' Inventories		X		X	X	X	X(6)	X	X
Tax Exemption on Ray Materials Used in Manufacturing	X(2)	X	X(4)	X(5)	X(9)	X	X(6)	X	X
Sales/Use Tax Exemption on New Equipment	X(3)	X	X	X	X(7)	X		X	X
Revenue Bond Financing	X	X	X	X	X	X	X	X	X

(1) Applicable only to goods stored in bonded warehouses.

(2) Leaf tobacco taxed at 60% rate, bales of cotton 50% and peanuts 20%.

(3) New Equipment allowed a preferential rate of 1% with a maximum of $80 per single item.

(4) Exempt from sales/use tax, but not from business capital tax at 30¢ per $100 value.

(5) Applies to local level only, state tax is 15¢ per $100 value.

(6) Taxable but assessed at 25% of "just valuation".

(7) Reduced rate of 1.5% applied to industrial machinery.

(8) Localities have the option of exempting all or part of certified pollution control facilities and equipment from real or personal property taxes.

(9) Raw materials for processing are exempt from sales and use taxes. However, a personal property inventory tax is leived at the local level on raw materials a manufacturer has on hand on Jan. 1. Finished goods and goods in process are exempt from taxation.

ESTIMATES OF NEW AND EXPANDED INDUSTRY INVESTMENT IN THE SOUTHEAST[1]
(1976)

	Millions
North Carolina	$1,006
South Carolin	$ 487
Virginia	NA
Kentucky	$ 531
Tennessee	$ 470
Georgia	$ 835
Florida	NA
Alabama	$1,614
Mississippi	NA

[1]Based on estimates from the Southern Industrial Development Council.

TAX EXEMPTION ON MANUFACTURERS' INVENTORIES

Arizona	Nevada
Arkansas (1a)	New Hampshire
California (1)	New Jersey
Colorado (2)	New Mexico
Connecticut	New York (6)
Delaware	North Dakota (6)
Hawaii	Oklahoma
Idaho	Oregon
Iowa (3)	Pennsylvania (7)
Maine	Rhode Island
Maryland	South Dakota
Massachusetts	Utah
Minnesota	Washington
Montana (4)	Wisconsin (8)
Nebraska (5)	Wyoming

(1a) Some counties exempt portion of inventories used for products for out-of-state customers

(1) A 15% reduction in assessed valuation of business inventories is allowed.

(2) Law allows reduction in taxes but not exemption. Goods in transit, inventories and raw materials are assessed at 5%.

(3) First $58,500 of assessed taxable value of personal property is exempt.

(4) Reduced 79%.

(5) Business inventories are allowed 62.5% exemption.

(6) Tangible and intagible personal property is not subject to ad valorem taxes.

(7) Exclusion of tangible personal property from taxation at local level.

(8) 80% credit.

INDUSTRIAL LOCATION PROJECTS AFFECTED BY
TAX ON INVENTORIES IN NORTH CAROLINA 1971-Present

Company Name	Product	Estimated Investment	Estimated Employment	Comments
H. D. Lee Company	Men's work clothes & overalls	$ 2,000,000	400	Located in Alabama because of inventory tax.
Mars Incorporated	Candy	$ 5,000,000	300	Dropped option on site and further interest in North Carolina because of inventory tax.
Bliss & Laughlin Industries	Furniture casters & trim	$ 1,000,000	100	Group vice president stated that he would consider North Carolina further "only if he could be assured that inventory tax would be rescinded in the company's favor." Located SC.
Michelin Corporation	Steel belted radial tires	$158,000,000	2,500	Company openly seeking both Revenue Bond assistance and inventory tax relief. Under construction in Greenville, S.C.
Wamsutta Div. M. Lowenstein Co.	Textiles	$ 5,000,000	400	Located Orangeburg, S.C.
American Fast Print Co.	Textile Printing	$ 3,000,000	200	Located Spartanburg. S.C.
Schaefer Corp. Div. of Studebaker-Worthington	Cabinets	$ 5,000,000	400	Located Huntsville, Ala.
Timken Roller	Bearings	$ 50,000,000	450	Located in Gaffney, S.C.

Company Name	Product	Estimated Investment	Estimated Employment	Comments
Russell Stover	Candy	$ 2,000,000	500	President Lewis Ward states that N.C. has never been considered because of inventory tax. Virginia and S.C. currently have plants. Kentucky and Tennessee are under consideration for new plant within 6 months. If N.C. repeals inventory tax, he would like us to contact him.
Seven Unknown Firms	--	--	4,330	One office of one of the large plant location firms in U. S. eliminated N.C. from preliminary consideration in 1972 because of inventory tax considerations. This one office represents only about one-half of their consulting operations.
John C. Nordt Co.	Fine Jewelry	$ 600,000	50	President of company stated they could not locate in N.C. because of the high value of their inventory in precious metals.
Ethan Allen Corp.	Furniture	$ 1,000,000	300	Inventory tax a major reason for company's Decision to locate in Tennessee.
Reliance Electric	Electronics products	$ 12,000,000	1,200	Located 2 plants in South Carolina because of bond financing and no inventory taxes.
Tateisi Electronics	Electronics	--	300	Located in South Carolina because of bonds and taxes.
Roper Corporation	Lawnmowers	$ 5,000,000	265	Located in South Carolina because of bonds and taxes.
American Koyo Corporation	Ball bearing	$ 8,000,000	600	Company lost interest in North Carolina after visiting South Carolina and learning about tax advantages of that state. Located Orangeburg, SC.

SUMMARY SHEET (Cont.)

Company Name	Product	Estimated Investment	Estimated Employment	Comments
Parker White Metal Co.	Die Castings	$ 2,500,000	200	Located in Beaufort, S.C. because of availability of natural gas and taxes.
Savin Business Machines	Business Machines	$ 5,000,000	250	Located in Summerville, S.C. because of financing and taxes.
FMC Corp. Bolens Div.	Lawnmowers	$ 2,000,000	200	Located in Aiken, S.C. because of financing and taxes.
Degussa, Inc.	Chemicals	$160,000,000	250	Located in Mobile, Ala. because of supply of natural gas and better tax incentives.
P. Lorrillard Company	Cigarettes	$ 16,000,000	700	Located in Louisville, Ky. because of nearness to markets and better tax situation.
Reliable Electric	High Voltage Electrical Products	$ 1,500,000	200	Located in St. Stephens, S.C. because of financing and taxes.
Wheel Trueing Tool Co.	Diamond Tool	$ 3,500,000	250	Slected Columbia, S.C. over Raleigh because of savings in labor costs and taxes.
Webster Industries	Blow mold plastics	$ 1,000,000	75	Located in Tenn. because of revenue bonds and taxes.
Brach Candy Co.	Candy	$ 3,000,000	500	Lost interest in N.C. because of inventory tax. No action taken.
Brock Candy Company	Candy	$ 2,000,000	350	Located in Tenn. because of N.C.'s inventory tax.
Russell Stover Candy Co.	Candy	$ 3,000,000	500	Not same plant as shown earlier which was built i S.C. This one went to Virginia.

SUMMARY SHEET (Cont.)

Company Name	Product	Estimated Investment	Estimated Employment	Comments
L. J. Minor Corp.	Food Additives	$ 2,000,000	200	Lost interest in N.C. because Inventory Tax. No action taken by company.
Scholler Hoësch (German Firm)	Wire Drawing	$ 1,000,000	100	Located in Spartanburg, S.C. Inventory Tax of major concern
(CONFIDENTIAL) British Firm	Fuel Injection Systems	$ 13,500,000	200	Has not yet announced U.S. Location but has dropped N.C. because of Inventory Tax.
(CONFIDENTIAL) International Harvester	Assembly and Distribution of Heavy Farm Equip.	2,000,000	100	Firm located in Mississippi which has no Inventory Tax.
Leesona Corporation	Distribution of Textile Equip	$ 1,000,000	100	Was located on I-85 in Charlotte. Built new 68,000 sq. ft. facility in S.C. becuase of N.C. Inventory Tax.
3 Firms (CP & L)		$ 10,000,000	700	Inventory Tax is negative factor. No action taken.
Conval Corp.	Industrial	$ 1,000,000	50	Located Huntsville, Alabama.
Bennett Marine	Steel Levelers	$ 500,000	10	Located S. W., Florida.
Service Masters, Inc.	Cleaning Materials	$ 500,000	35	Located Alberta, Virginia.
Moulinex (French Firm)	Mixing Blenders	$ 13,000,000	200	Located Charleston, S.C.
Gates Rubber Co.	Auto Hose	$ 3,000,000	100	Locating Virginia.
TOTAL:		$504,400,000	17,565	

RELATIONSHIP OF SELECTED ITEM
OF REVENUE ACCRUING TO STATE AND
LOCAL GOVERNMENTS FROM MANUFACTURING
EMPLOYMENT

Estimated number of manufacturing jobs lost to other states due exclusively or in part to inventory tax (1971-Present):	17,565
Estimated revenue to local governments from taxes on inventories of "lost" plant facilities: (1)	1,173,145
Estimated revenue to local governments from property taxes after "lost" firms reach "economic maturity" (2) (new employees, residences, service industries)	8,072,365
Estimated revenue to local governments and the State of North Carolina from "lost" firm after "economic maturity" (includes all taxes and revenues) (2)	42,567,960

(1) Average inventory per employee in U.S. manufacturing industries 1976 = $8,788

Weighted 1975-76 tax rate for rurally located property in N.C. = 76¢ per $100 valuation

$8,788 x 17,565 employees x 76¢/$100 = $1,173,145

(2) Product of employment times average annual manufacturing wage of $7,790 times the multiplier effect of 2.3 yields total personal income of $314.7 million. Each $1,000 of personal income eventually increases local property taxes by $25.65 and total state and local revenue by $135.26.

Sources: (1) Economic Indicators, April 1977, USGPO, Wash. D.C., p. 21 & p. 14.

(2) Significant Features of Fiscal Federalisn 1976-77, Vol. 11 - Revenue and Debt, Table 30, p. 48, Advisory Commission on Intergovernmental Relations, March, 1977.

INVENTORY TO EMPLOYMENT RATIOS FOR
SELECTED MANUFACTURING INDUSTRIES

HIGH WAGES

Industry	Title	Inventory ($000,000)	Employment (000's)	Ratio ($000/emp)
2819	Industrial Inorganic Chemicals	384.1	39.9	9.6
3573	Electronic Computing Equipment	1574.1	64.7	24.3
3629	Electrical Industrial Apparatus	99.2	13.5	7.4
3549	Special Dies, Tools, Jigs, Etc.	244.1	80.5	3.0
3662	Radio & TV Comm. Equip.	2081.2	161.9	12.9
	TOTALS	4382.7	360.5	
			AVERAGE	11.44 $000/

LOW WAGES

Industry	Title	Inventory ($000,000)	Employment (000's)	Ratio ($000/emp)
2327	Men's & Boy's Separate Trousers	286.3	91.3	3.1
2391	Curtains & Draperies	101.1	29.5	3.4
2282	Throwing & Winding Mills	110.7	32.9	3.4
2399	Fabricated Textile Products	105.7	27.1	3.9
2339	Women's, Misses' Outerware	221.5	71.5	3.1
	TOTALS	825.3	252.3	
			AVERAGE	3.38 $000/

Ratio of Inventories:

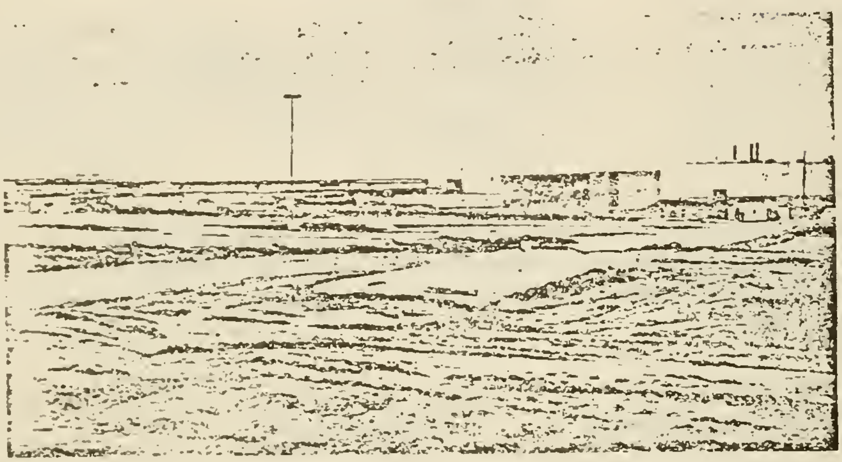
$$\frac{\text{High Wage Industries}}{\text{Low Wage Industries}} = \frac{11.44}{3.38} = 3.4$$

Sources: 1972 Census of Manufactures, U. S. Dept. of Commerce, Nov., 1975.
Employment and Earnings Vol. 24 #4, U. S. Dept. of Labor, April, 1977.

DECLARATION BY
MR. ROBERT KRAUS
V-P INDUSTRIAL LOCATION GROUP
FANTUS CO., SOUTH ORANGE, N.J.
MAY 17, 1977

Two major firms within the last year have told Fantus <u>not</u> to consider North Carolina. These two firms would have employed approximately 1,000 workers.

The North Carolina "inventory tax was punitive to these clients."



French tire firm building $300 million plant in S.C.

The Michelin Corp., international tire firm, with U.S.A. headquarters in Lake Success, N.Y., is completing work on a $300 million manufacturing plant outside of Greenville, S.C., the center of the state's industrialized Piedmont district. Michelin also is building another unit in Anderson, S.C., and has taken an option on 1,200 acres in Laurens County for a possible testing laboratory.

A spokesman for the corporation said that increased demand for rubber products prompted the expansion. The corporation selected South Carolina for its main production plant because of the available work force and the low tax rates offered by the state and local governments to new manufacturing establishments.

Chevron, Amoco Chemicals, Dupont plan giant projects in South Carolina

By FRED MONK
Columbia Correspondent

Announcements by two giant oil companies that they will launch multi-million dollar projects in South Carolina have increased the hopes of area developers and state officials that industrial activity will pick up again after a six month slowdown due to uncertainty over the national economy. South Carolina's industrial growth reached new highs in 1973-74 and the subsequent easing off has left on the market many prime sites available at reasonable prices.

The two oil companies planning new projects are Chevron Oil Co. a subsidiary of Standard Oil of California, and Amoco Chemicals, a subsidiary of Standard Oil of Indiana.

Chevron has exercised its option to buy 7,000 acres of land in rural Jasper County, which borders the Georgia State line. The site is not too far from Savannah, Ga. Here the company would construct a $400 million oil refinery with the capacity to produce 200,000 barrels of oil a day, according to Willis Price, Chevron president. The expansion hinges on federal energy moves, but a favorable ruling is expected.

Amoco has an option on 3,000 acres of land in a heavily industrialized area north of Charleston, S.C., and plans a plant for the manufacture of dimethyle terephthalate, which is used in making synthetic fibers. Amoco, which finds South Carolina's tax structure and available work force to its liking, is speeding construction of a 150,000-sq. ft. plant, on 80 acres at Beech Island in Aiken County, to manufacture plastic goods.

Near where Amoco will erect its newest plant in the industrial area, known as Bushy Park, DuPont is continuing construction on its $40 million plant for the production of synthetic fibers.

Michigan outdoing Southern States on tax abatements to manufacturers

By DON TSCHIRHART
Detroit Correspondent

With three new industrial incentive programs underway to attract out-of-state manufacturers planning plant relocations, Michigan's economic development officials believe the state will move out of its recessionary doldrums much stronger than when the downslide began two years ago.

New state laws offer the following tax abatements for present or future industrial manufacturing companies planning new factories or rehabilitating old ones.

- An inventory tax credit of 32% immediately, plus increases each year until it reaches 75% by 1981.
- A reduced corporate franchise fee formula, providing for a 5% tax cut immediately, and an additional 5% reduction each year for a total of 55% by 1985.
- A 50% property tax cut for new plants that are erected in industrial development districts established by local governmental units.

Explaining the purpose of the new laws, Norton Berman, director of the Michigan Office of Economic Expansion, said

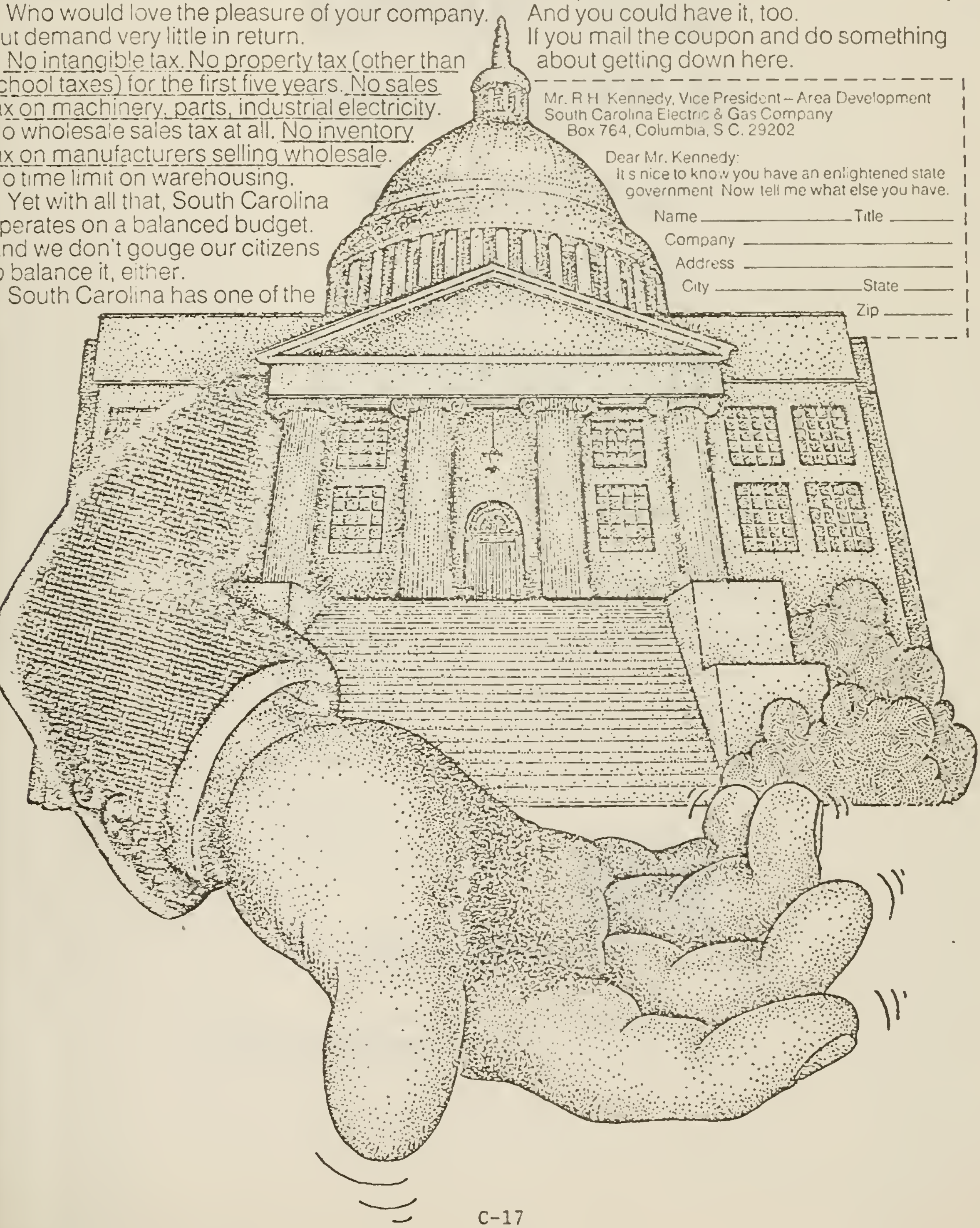
"For many years Michigan was uncompetitive with many states, especially those in the South, which were offering fantastic inducements to lure industry. Now we've turned the tables on those states. With our tax programs and our highly skilled workers, who have a high degree of productivity, we are more than a match for them."

Meijer Supermarkets has established a distribution center on a 385-acre site Lansing, Mich. to serve its chain of supermarkets and Thrifty Acres Hype markets throughout Michigan. Complex occupies 14.6 acres under roof.

Michigan's new incentive program, say developers, could not have come at a better time. It is hoped that it will appeal to a diversified industrial clientele and thereby reduce the state's dependence on the automotive factories.

Recent shutdowns of car assembly lines and industries that are relat the automobile have shown wisdom to have a multi-groupir industries in the state so that one is down, the other can tak some of the slack.

While the recently enacted i tives might not be helpful duri time of uncertainty among all f of real estate, Norton feels that industrial development does t loose, it could put a damper on f recessions.



C-17

Design your new plant to include a 5-year tax moratorium

YOU CAN IN SOUTH DAKOTA

Every new structure, or addition to an existing structure, built in South Dakota, may be extended a five year tax moratorium. When granted, it means your real property taxes will amount to no more than 25% of taxable value the first year, 50% the second year, and 75% the third, fourth and fifth years.

That's just one way to get down to business in South Dakota. There are many more. Ways like no personal or corporate income tax. Revenue bond financing for qualified business. Professional assistance from an industrial rep to help you relocate.

And that's just the start. Find out about all the ways we get down to business with you in South Dakota.

For more information, complete and return this coupon to:

Bob Martin, Director, Ind. Division, Suite SSS, Joe Foss Bldg., Pierre, S.D. S7S01. Or call 60S—224-3307.

NAME ____________________

COMPANY ____________________

ADDRESS ____________________

CITY ____________ STATE ____________

ZIP ____________

SOUTH DAKOTA

GETTING DOWN TO BUSINESS

Circle No. 162 on Investor CommuniCard

Where can you build a tax exempt plant to serve* this 30-state market?

Sixty-three percent of the U S population lives within third day truckload service of Louisiana The 133 million consumers in this market had an Effective Buying Income of $599 billion in 1974

A manufacturing plant located in Louisiana can efficiently serve this huge market while benefitting from a 10-year exemption from all property taxes on buildings and equipment. Your expansions can be tax exempt, too

This combination of access to major markets and meaningful tax incentives makes Louisiana the obvious place to start any new plant site search

For more information on Louisiana write for our new brochure, 'Louisiana s Industrial Advantages, or contact Stanley Passman, Executive Director, State Department of Commerce and Industry, Suite 142, Post Office Box 44185, Baton Rouge, Louisiana 70804 Telephone 504 389-5371

LOUISIANA

THE RIGHT-TO- PROFIT STATE

* Third day truckload service to region shown. Most major markets within two days

Circle 254 on Executive Inquiry Card

SEARS

continued from page 30

Distribution centers

A number of the above criteria, with variations, for locating retail stores are applied to site selection for Sears warehouses and distribution centers. We might take as an example Sears' decision to locate a major catalog order distribution center in Imeson International Park in Jacksonville, Fla.

The new 1.6 million sq. ft. distribution center on a 150-acre tract, is the first constructed by the company in its southern territory in 28 years. Sears' decision was influenced by two additional factors.

Because of an anticipated population increase, Sears concluded that "it would be more economically feasible to acquire more land and build a larger catalog facility in two stages," according to Clyde G. Turner, general manager of the facility. Sears also decided to include a 194,000 sq. ft. retail store in its plans.

The location would permit construction of a center running from west to east, rather than a normal north-south layout. The configuration would allow Sears to add a duplicate 1,625,000 sq. ft. expansion when business demanded it. Construction plans called for an imposing entrance at the extreme easterly end of the first building. Later, when an expansion would be annexed, the entrance would be in the middle of the facility.

The two-story building measures 864 feet by 896 feet and has 25-foot ceilings. Sixteen football fields could be laid out on the 35 acres encompassing the two floors.

Over three miles of material-handling equipment and systems provide uninterrupted flow of merchandise. Included in this equipment are infloor cart conveyor systems, tilt-tray conveyors, merchandise sorters, vertical conveyor ramps and battery-powered "personnel carriers." These are all monitored at an operations nerve center which detects any mechanical problem instantly for prompt correction.

The exterior of the building, which covers nearly 18 acres, is of contemporary design with sand-colored walls of reinforced tilt-up concrete sections. The doors are big enough to permit the entry of freight cars as well as trucks. There is space for 64 trucks at the loading docks in the shipping area and another 56 trucks at the receiving docks. Spur-rail facilities are able to handle 10 freight cars at one time. The paved parking lot can hold 1,250 cars.

Behind the building is a separate utility which provides heating and cooling for the virtually windowless building, maintaining a controlled climate year-round.

Special features include a large cafeteria, employee lounges, a bank, training room, a medical department and a 40,000 sq. ft. surplus store, catalog desk and package pick up unit.

Despite a six-month delay in reaching a decision between the 150-acre site selected and another tract of 100 acres, the planning was so meticulous that the distribution center was opened on schedule in January 1975. The center now employs 1,800. Jacksonville area facilities account for 2,700 employees out of the total Sears payroll of 18,000 in Florida (the highest in the company's 13-state southern territory). □

Room at the top in Colorado's Upper Arkansas Valley

COLORADO

THE ULTIMATE FRINGE BENEFIT

We won't ask how you got there — high atop Mt. Princeton, elevation 14,197 feet. The Ivy League you know so well was never like this — one of Colorado's Collegiate Peaks, and you're bound to conquer them all. It takes skill. And you have to care. It's like the motivation for climbing the corporate ladder. You reach for the next rung "because it's there." Below, spread out like a giant's patterned beach towel, is the Upper Arkansas Valley, the Arkansas River part of the design. Your company's new plant is down there, which is why you can be up here on a weekend. Now you know what they meant — those who urged your company's relocation here — when they said that Colorado itself was the ultimate fringe benefit. Of course there were less esoteric reasons for your move to this fertile Valley, not just near the mountains but in them. Here early day fortunes were made in silver and are still being made from the earth's rich resources. Throughout this region, there are industrial plant sites at attractive prices, and state and local assistance programs that say you are wanted and welcome here. Railways and U.S. highways provide easy access to national markets. Inventory taxes have been reduced. And you can't say enough about the work force — they enjoy living here as much as you do. The Upper Arkansas Valley. Its four counties are just the tip of the mountain. To find out more about them, write William C. Hacker, Colorado Division of Commerce and Development, 1464 State Capitol Annex, Denver, Colorado 80203.

Circle 44 on Executive Inquiry Card

LETTERS FROM READERS

Thesis wanted

Would you please be so kind to send me, without charge, a copy of Mr. Latture's thesis, entitled "Foreign Investment & Its Acceptability in the Helena, Ark., Area," referred to in your January 1976 issue of AREA DEVELOPMENT, Sites & Facility Planning, page 34.

Thank you for your cooperation.

Edgard De Vleeshouwer
Consul
Consulate General of Belgium
New York, N.Y.

Modifies prefab article

The story in your February 1976 issue on prefabricated refrigerated buildings was great, as was the layout. It certainly gives a big boost to the use of prefab buildings.

We appreciate the fact that the article singles out Bally as the industry's leading producer and quotes Walter Stoudt, a true expert in the field. However, the transition from the direct quotes to the descriptive material leads one to believe that he is speaking of all prefab buildings, regardless of their manufacturer. This is anything but true.

Not all manufacturers use "4" of urethane and Bally is the only one of size that pours it in place. Furthermore, only Bally has approval by F. M. Insurance and U.L. Additionally, not all companies offer self-contained or pre-assembled refrigeration systems.

Additionally, Bally designed the pressure relief port idea and I am certain that it is not available on many buildings, which incidentally is a reason for the failure of some. The architectural facade that you refer to also is unique with Bally which designed a special system of anchors and girts for the use of this metal.

In short, the article describes Bally prefabs in detail but doesn't indicate that these are the specifications of Bally and Bally alone.

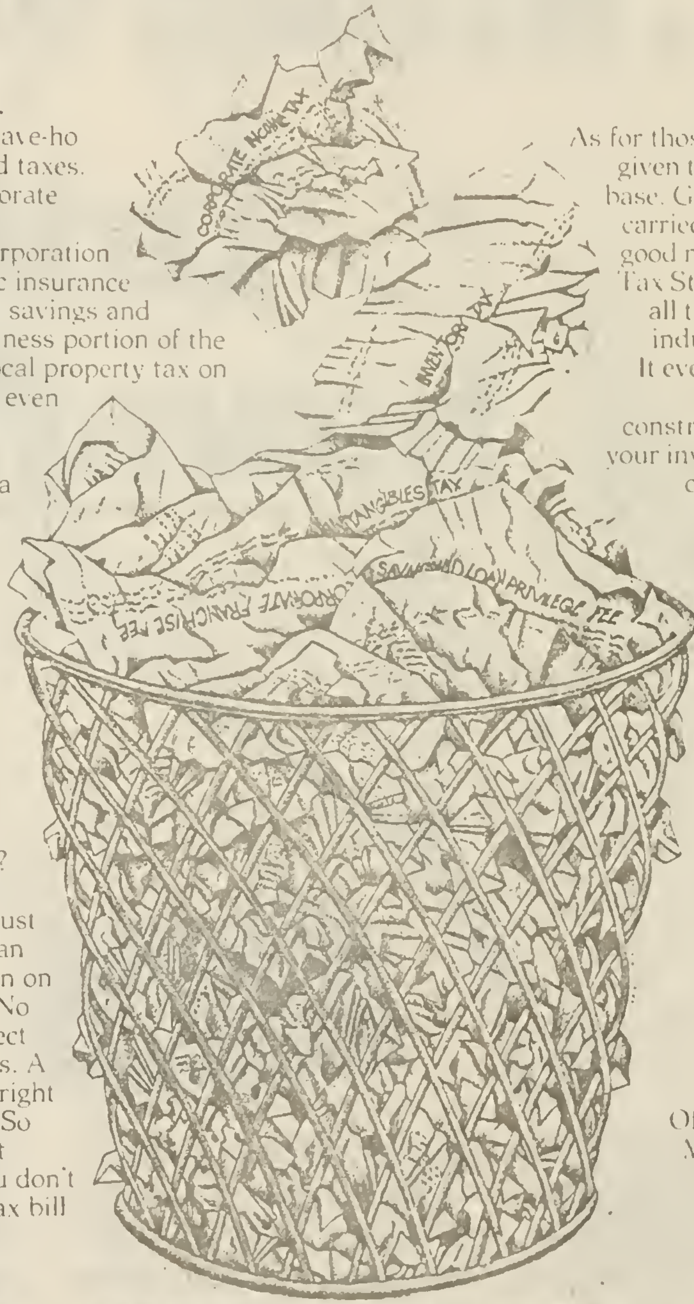
These unique features are not merely "differences." They provide distinct advantages which the great majority of our customers specifically desire.

I trust you do not mind me pass

We just put 8 business taxes where they belong.

New Single Business Tax.
Michigan has given the heave-ho to eight complex, outdated taxes. We've scrapped: The corporate income tax, the financial institutions income tax, corporation franchise fee, the domestic insurance company privilege fee, the savings and loan privilege fee, the business portion of the intangibles tax, and the local property tax on inventory property. We've even cut personal income taxes for unincorporated businessmen by allowing a business tax credit.
How? With a system that's a lot less taxing. A Single Business Tax. A tax that treats all businesses alike and lets you keep more of the money you make.

100% Write-Off on Capital Investment.
Remember how the old corporate franchise fee penalized business for expansion and renovation? Well, forget it. The new Single Business Tax does just the opposite. It gives you an immediate 100% deduction on new capital investments. No delays. No waiting to collect depreciation over the years. A full 100% deduction goes right back into your cash flow. So you don't have to wipe out retained earnings, and you don't get socked with a heavy tax bill on the heels of a heavy investment.



Zero Tax Penalties?
As for those investments, let's say in a given tax year they exceed your tax base. Good news. The excess can be carried forward for 10 years. More good news. Another new Michigan Tax Statute (P.A. #198) eliminates all tax increases on rehabilitated industrial property for 12 years. It even allows a 50% property tax exemption on new plant construction for 12 years. So, with your investment write-off, you come out with zero tax penalties on expansion and renewal.

It's Your Move.
Right now we think Michigan has the neatest tax package ever put together. Eight business taxes less, and dozens of benefits more than ever before.
So make the first move. Write or call us. Ask for our detailed explanation of the new tax structure. Ask how it relates to your particular kind of business. Then we'll talk about the second move. It could put your business in a better state.

Howard Cross,
Pro-Businessman
Office of Economic Expansion
Michigan Dept. of Commerce
Lansing, MI 48913
517-373-0637
In Michigan, toll free,
800-292-9544

MICHIGAN

Circle 387 on Executive Inquiry Card

Industry's view of the South... fruitful but flawed

On the whole, industries that have "gone south" have found both hospitality and profitability. But not always. One company closed a southern plant because of recruiting problems, and another found freight costs an added burden.

By John H. Sheridan

John Delaney flashes the broad grin that seems to come naturally and proclaims: "I like it warm year-round. I've had enough of snow."

The 38-year-old plant manager at Hobart Corp.'s Columbia, S. C., small motors plant was raised in Dayton, Ohio, and studied industrial engineering at the University of Illinois. As a golf and fishing buff, he finds the southern climate a good deal more hospitable than the one he left five years ago.

"I'm sold on the South. And so is my family," he says.

But his reasons go deeper than livability. Mr. Delaney, a man known for his skill in dealing with people on a one-to-one basis, is effusive in his praise of the work attitude and productivity of the 250 employees who man the highly automated non-union plant.

"It's almost indescribable. The people down here are prouder of what they do. They identify strongly with the company and they want things to go right," he says. "Occasionally, we'll come up with a new idea—something we'd like to try but aren't sure it will work. In one case, one of our female employees discussed a problem at home with her husband and came back the next day with a suggestion on how to make it work."

Touring the plant, he gestures to a woman employee testing and assembling the rotor section of a line of motors. "If she finds the rotors aren't balanced properly and it is slowing her down, she'll let the foreman know about it. Everybody knows what the production standard is for his job—and they want to meet it."

Cramped. The employees' attitude is a major reason his plant has consistently shown a good return on investment, Mr. Delaney asserts. And the South Carolina unit's profitability record has convinced the Troy, Ohio-based firm to increase its investment in new equipment at the plant. "Our biggest problem now is that we're running out of space," Mr. Delaney says. "We've had to rearrange the plant several times to accommodate the additional work."

Dwight Mills, Hobart's vice president-manufacturing, is equally enthusiastic about the location. He recalls the initial reception the company received from the state and local development officials. "They really work with you. They help you to locate the grounds and put you in touch with good contractors to build the buildings for you. And they have an excellent industrial education system in South Carolina. You tell them the kind of skills you'll need and they'll move a small machine shop right onto your location and help you train the people."

Further, the plant pays no taxes on inventory and was granted partial property tax relief for its first five years. "Not having to pay an inventory tax is a major savings for any plant with finished goods," Mr. Mills adds.

Some disappointments. Not every company that has moved an operation to the South or expanded below the Mason-Dixon line is as thoroughly satisfied as Hobart seems to be. Some have encountered unexpected problems. A few have closed up shop and moved back North—or to other locations in the South.

However, an impressive majority give the South high marks—which is

APPENDIX D

FORMULA FOR CALCULATING TAX CREDIT

1. Calculate total book value of qualifying inventory (Raw materials and goods-in-process). (1) ____________
2. Calculate cost of manufacturing. (2) ____________
3. Calculate 15% of cost of manufacturing (15% X (2)). (3) ____________
4. Subtract (3) from (1). If the result is zero or less than zero, no credit will be allowed. If the result is greater than zero, proceed to Step 5. (4) ____________
5. Divide (4) by (1). This determines the percent of qualifying inventory eligible for tax credit. Carry result of division to five decimal places. (5) ____________
6. Calculate amount of property tax paid on all qualifying inventory (raw materials and goods-in-process). (6) ____________
7. Multiply (6) by (5). The result is the amount of property tax paid which may be applied as a tax credit against State income tax. (7) ____________

[See example next page]

EXAMPLE: CALCULATION OF TAX CREDIT

Assume manufacturer with:

Qualifying Inventory (raw materials and goods-in-process) -------------------------------- $ 100 MM

Cost of Manufacturing ------------------------------ $ 400 MM

1.	Value of Qualifying Inventory	(1)	$100 MM
2.	Cost of Manufacturing	(2)	$400 MM
3.	15% of (2)	(3)	$ 60 MM
4.	Subtract (3) from (1)	(4)	$ 40 MM
5.	Divide (4) by (1)	(5)	.4
6.	Amount of Tax (assume 1% tax rate)	(6)	$ 1 MM
7.	Multiply (6) by (5)	(7)	$ .4 MM
			OR
	TAX CREDIT ---------------		$400,000

PROPERTY TAX STUDY COMMISSION

REPORT TO THE 1977

GENERAL ASSEMBLY OF NORTH CAROLINA

second session 1978

Raleigh, North Carolina

North Carolina General Assembly

State Legislative Building
Raleigh 27611

To the Governor, the Lieutenant Governor, the Speaker of the House, and the Members of the 1977 General Assembly, Second Session 1978:

In accordance with Resolution 94 of the 1977 General Assembly, the following members were appointed to the Committee for the Study of the Collection of Property Taxes on Motor Vehicles: Rep. Bob Jones, Chairman; Rep. Claude DeBruhl, Vice-Chairman; Mr. Frank Anderson, Jr., Rep. Marilyn Bissell, Rep. Samuel Bundy, Mr. Lloyd Burchette, Rep. Fred Dorsey, Mr. William Knight, Sen. Carolyn Mathis, Mrs. Kathryne McRacken, Mr. Jack Warren and Rep. Billy Watkins.

Since the appointment of the Committee by the Lieutenant Governor and the Speaker of the House, the Committee met numerous times and studied the present system of collecting property taxes on motor vehicles in North Carolina and reviewed the systems employed by other states in an effort to determine the effectiveness of these systems in comparison to that used in North Carolina.

The Committee has considered a number of proposals that would coordinate the collection of ad valorem taxes with the purchase or renewal of license plates. It has not completed its deliberations, and requests that the 1977 General Assembly, Second Session, permit this Committee to continue its study this year to prepare a comprehensive report for appropriate legislative action during the 1979 General Assembly.

Respectfully submitted,

Bob Jones

Rep. Bob Jones, Chairman

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1977
RATIFIED BILL

RESOLUTION 94

HOUSE JOINT RESOLUTION 1381

A JOINT RESOLUTION CREATING A COMMITTEE FOR THE STUDY OF THE COLLECTION OF PROPERTY TAXES ON MOTOR VEHICLES.

Whereas, the counties and municipalities of this State are experiencing increasing difficulty in collecting property taxes on motor vehicles; and

Whereas, it is estimated that between fifteen percent (15%) and twenty percent (20%) of all motor vehicles subject to tax in this State are not being listed for taxation; and

Whereas, this results in a substantial amount of lost revenues for the counties and municipalities and a substantial increase in the cost of administering the tax on motor vehicles on the part of the counties; and

Whereas, the General Assembly has demonstrated its concern for this problem by its consideration of legislation designed to establish an alternative method of collecting the tax on motor vehicles; and

Whereas, most of the other states have moved to a different system of collecting tax on motor vehicles; and

Whereas, the 1976 Committee for the Study of the Property Tax System in North Carolina in its report to the 1977 General Assembly recommended the creation of a high level commission to study this problem in detail and prepare proposals for consideration by the 1978 or subsequent session of the

General Assembly; and

Whereas, that committee was convinced, as were prior study committees, that a different and more efficient method of collecting property taxes on motor vehicles is urgently needed in North Carolina;

Now, therefore, be it resolved by the House of Representatives, the Senate concurring:

Section 1. There is hereby created the Committee for the Study of the Collection of Property Taxes on Motor Vehicles, to be composed of 12 members. Six members shall be appointed by the President of the Senate and six members shall be appointed by the Speaker of the House. All appointments shall be made in time for the committee to begin its work by September 1, 1977.

Sec. 2. Upon its appointment, the committee shall organize by electing from its membership a chairman and a vice-chairman.

Sec. 3. It shall be the duty of the committee to make a comprehensive study of the efficiency and effectiveness of the present system of collecting property taxes on motor vehicles in North Carolina. In its study the committee shall review the systems employed by other states to determine the efficiency and effectiveness of those systems in comparison to that used in North Carolina. Among other alternatives, the committee shall consider a system that will coordinate the collection of ad valorem taxes with the renewal of license tags.

Sec. 4. Members of the committee who are members of the General Assembly shall receive subsistence and travel allowances at the rate set forth in G.S. 120-3.1. Members of the committee

who are not officials or employees of the State of North Carolina and who are not members of the General Assembly shall receive per diem compensation and travel expenses at the rate set forth in G.S. 138-5. Any members of the committee who are officials or employees of the State of North Carolina shall receive travel allowances at the rate set forth in G.S. 138-6.

Sec. 5. The committee shall have authority to employ clerical assistance and to purchase necessary supplies and materials.

Sec. 6. The expenses of the committee shall be paid from funds collected by the Department of Revenue under Article 7, Chapter 105 of the General Statutes of North Carolina. The funds so expended shall be deducted as in G.S. 105-213(a) from the costs of administering the intangibles tax. Committee expenses shall be limited to a maximum of ten thousand dollars ($10,000), and no funds may be expended on committee matters after June 30, 1978.

Sec. 7. The committee is authorized to obtain assistance in carrying out its functions under this resolution from the Department of Revenue, the Department of Transportation, the Fiscal Research Division of the Legislative Services Commission, and local government units or organizations of local government units. The committee shall also consult with representatives of the automobile industry.

Sec. 8. The committee shall make a written report of its study to the General Assembly, including recommendations for appropriate legislative action. The report shall be presented no later than the opening date of the 1977 General Assembly, Second

Session 1978.

Sec. 9. This resolution shall become effective upon ratification.

In the General Assembly read three times and ratified, this the 1st day of July, 1977.

JAMES C. GREEN, SR.

James C. Green

President of the Senate

CARL J. STEWART, JR.

Carl J. Stewart, Jr.

Speaker of the House of Representatives

REPORT OF THE COMMITTEE

The Committee for the Study of the Collection of Property Taxes on Motor Vehicles, Chaired by Rep. Bob Jones, was created by Resolution 94, HJR 1381. The primary purpose of the Committee was to engage in a study of the listing and assessment of motor vehicles subject to ad valorem taxation by the local taxing units in the State.

The Committee was charged by HJR 1381 to make a written report of its study to the 1978 General Assembly including recommendations for appropriate legislative action. The Committee, in carrying out its function, obtained assistance from the Department of Revenue, the Department of Transportation, the Association of County Commissioners, the League of Municipalities, and the North Carolina Automobile Dealers' Association.

The 1974 Tax Study Commission, in its report to the 1977 General Assembly, outlined a number of surveys that had been conducted in North Carolina concerning the taxation of motor vehicles. These surveys and the investigations of the Committee reached the same conclusions on the following points:

(1) Approximately 15 percent of all motor vehicles in North Carolina escape taxation.

(2) The present system of checking tax listings against lists purchased from the Department of Motor Vehicles is expensive and time consuming.

(3) The mobility of motor vehicles makes collection of taxes impossible even when listing is accomplished.

The Committee held five meetings in the State Legislative Building in Raleigh. The Committee studied various methods for improving the listing and collection of ad valorem tax on motor vehicles. The following proposals were considered:

(1) An excise tax which would be levied and collected by the Department of Motor Vehicles and returned to the counties. This would eliminate the motor vehicles from ad valorem tax and place the responsibility of levying the excise tax with the Department of Motor Vehicles. The revenue generated under this proposal would be returned to the units of local government after the Department of Motor Vehicles deducted its cost of levying and collecting the tax.

(2) Another proposal would be patterned after Georgia's system of tax collection on motor vehicles. The tax collector would sell the license plate and at the same time the property tax would be collected. The major advantage in having taxes collected locally and selling the plates at the same time is that it could eliminate the distortation caused by statewide rates under the excise tax concept. The county could apply its rates, and it could easily determine whether it is taxable inside or outside the municipality.

(3) The proposal that was studied most consistently by the Committee made the following provision:

Phase I - To be effective January 1, 1979

In the process of purchasing new licenses or renewing present licenses, vehicle owners would be required to complete a new section of the application form. The Department of Motor Vehicles and its agents would not be permitted to sell tags unless the new section was completed properly. The new section would contain all of the information shown on the present two sections and spaces on the

back in which the applicant would enter the name of the county - and city or town if applicable - in which the vehicle was subject to property taxes. The license number and validation number would also be entered on the new section by the person selling the tag. By completing the form, the applicant would be relieved of the duty of listing the vehicle for taxation.

The new third sections would be retained by the Department of Motor Vehicles or the branch agent until the end of the week. Those showing an address in the county where the office is located would be sent to the tax supervisor of that county. Those for all other counties would be sent to the Ad Valorem Tax Division of the Revenue Department. The Revenue Department would sort the forms and send them to the proper counties.

The counties would use the completed forms in the preparation of a tax bill. Any vehicles not listed in the manner outlined above would have to be listed with the tax supervisor.

Phase II - To be effective January 1, 1980

In addition to the completion of the new Part III of the license application form, each applicant would be required to affirm that he did not owe property taxes on any motor vehicle to any city or county in North Carolina. No license could be issued without the affirmation.

False affirmation would be punishable by a severe penalty - $1,000 fine, plus forfeiture of tags.

The Motor Vehicles Department would continue to furnish each county with two lists. The first list would include all vehicles for which licenses were issued in the current registration period. The list would include only those vehicles for which title had been issued prior to January 1. The second list would include all vehicles of record with the Department of Motor Vehicles for which

licenses were not issued for the current year.

(4) The latest proposal to come before the Committee, and the one which the Committee desires to give further study would provide county registration of motor vehicles. Under this system, owners of motor vehicles would be required to display a registration sticker identifying the issuing county or city in which the vehicle is registrated prior to July 1 of any year. Failure to make application and acquire such a sticker would subject the vehicle owner to the tax plus a penalty.

During its deliberations, the Committee considered the cost and additional services that would be required to implement any of the proposals studied. The Committee heard proponents and opponents from various state departments, including the Department of Transportation, the Department of Revenue, and various representatives of units of local government, including tax collectors and tax supervisors.

The Committee is cognizant of the fact that some system is needed to prevent owners of motor vehicles from escaping ad valorem taxation. The Committee is also cognizant of the vast amount of administrative cost encountered by local units of government administering the tax. The Committee has therefore attempted to create a system that would reduce the cost of administration and at the same time increase the efficiency in the administrative process in its efforts to implement a system to prevent motor vehicles from escaping taxation. The various proposals the Committee has studied thus far, while having merit for consideration, have not satisfactorily met the aims and

goals of the Committee. The Committee therefore recommends, in view of the inconclusiveness of the information which would produce satisfactory results, that it be allowed to extend its study and authorized to present its final report to the 1979 General Assembly. The Committee requests authorization for additional funding in the amount of $5,000 for payment of per diem and travel expenses of committee members, clerical assistance, and the purchase of necessary supplies and materials. This Committee is funded by funds collected by the Department of Revenue through funding expended from the costs of administering the intangibles tax.